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On

“Biennial Budgeting”

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Chairman Price, Ranking Member Van Hollen, and members of the Budget Committee, thank you for inviting me to share my views on proposals to create a biennial budget process for the federal government. This reform is a hardy perennial. In fact, I have lost count of the number of testimonies I have written on biennial budgeting, going back 25 years to my time as an analyst at CBO. Most of the arguments, pro and con, have not changed much over that time. My own bottom line is this: I am sympathetic to the goals of those who advocate biennial budgeting, but I am skeptical that these positive effects will be realized. Given this, the concerns that I will raise about the possible negative consequences suggest to me that the costs of biennial budgeting may well outweigh the benefits. I will amplify these arguments in the remainder of my testimony.

Possible Benefits of Biennial Budgeting

Biennial budgeting is not a new idea. Twenty states have biennial budgets. At the federal level, Representative Leon Panetta (D-CA) introduced the first bill proposing such a change in 1977, and the proposal has been more or less an annual entry in the budget reform sweepstakes since then. Perhaps the high water mark for biennial budgeting came in 1993, when both the Joint Committee on the Organization of Congress and Vice-President Gore's National Performance Review recommended a biennial timetable for the process. Despite this long history no bill to create a biennial budget has ever passed either the House or Senate.¹

Most bills proposing biennial budgeting, such as H.R. 1610 in the current Congress, follow what is usually referred to as the "split session" model, where budget decisions (Presidential budget submissions, the budget resolution and appropriations) are made in the first (odd-numbered) year of a Congress and the second year is reserved for other activities, particularly authorizing and Congressional oversight.²

Proponents of biennial budgeting normally make a number of arguments in favor of the reform:

- The current process features repetitive votes on many fiscal issues that eat up valuable committee and floor time. For example, there may be three votes on the defense number in each house—one associated with the budget resolution, one associated with the annual authorization bill, and one when the appropriation bill is passed.

¹ See Jessica Tollestrup, "Biennial Budgeting: Options, Issues, and Previous Congressional Action" (Congressional Research Service, 2015) for a summary of the legislative history of biennial budgeting. A minor exception occurred in 2013, when the consideration of the FY2014 budget resolution in the Senate included adoption of a deficit neutral "reserve fund" to establish a biennial budget.

² See Roy T. Meyers, "Biennial Budgeting in the U.S. Congress," *Public Budgeting & Finance* 8: 21-32 (1988). The other alternative is the "stretch" model, where budget decisions would be allocated over two years, thus reducing workload in any one year.

- There are substantial benefits for federal agencies in terms of decreased time spent on budgeting. According to this argument, the current annual process requires federal agencies to spend lots of time every year on budgeting—in preparing the President’s budget and Congressional budget justifications, and in appearing before Congressional committees to defend the budget. A biennial budget would presumably cut that effort in half.
- Biennial budgeting will decrease budgetary uncertainty, which is particularly important given the dismal record of the Congress in enacting annual appropriation bills on time.
- Biennial budgeting will increase time devoted to authorizations and oversight by Congress of federal agencies and programs, as the second year of the biennium will be available for these activities since the time devoted to budgeting will decrease.

Let me consider each of these purported benefits in turn.

Will biennial budgeting reduce repetitive decisions? It is important to acknowledge that the current process *does* involve lots of repetition. I believe a lot of that repetition comes not from the fact that the process is an annual one, but from the requirement to take separate actions to authorize and appropriation funds for federal agencies and programs. This has led some people to argue for congressional reorganization; for example, combining authorizations and appropriations into a single step. This has a great deal of merit, in my view. But I am not sure that the existence of repetitive decisions provides a very strong argument for biennial budgeting.

If the Congress wanted to consider a more fundamental restructuring of Congressional budgeting, it might consider an approach that has been referred to as “portfolio budgeting”. As proposed by Redburn and Posner, portfolio budgeting would focus attention on the policy objectives within key substantive areas (health or education, for example) and would examine the various programs, tax provisions and regulatory policies focused on these policy areas at the same time. This would illuminate specific tradeoffs rather than focusing on the rather arbitrary divides between discretionary spending, mandatory programs, and tax policy that currently are the focus of the budget process.³ Such a review could not happen easily within the current divided authorization/appropriations structural divide, and therefore might *require* a congressional reorganization.

How much time will be saved by biennial budgeting? It is understandable, given how contentious and haphazard the budget process has become, for people to argue that the world would be a better place if we could only budget half as often. The key question here involves what happens in the “non-budget” year. If the non-budget year included only marginal

³ See Steve Redburn and Paul Posner, “Portfolio Budgeting: How a New Approach to the Budget Could Yield Better Decisions,” Economic Studies at Brookings Discussion Paper, September 2015.

adjustments—that is relatively minor Presidential requests for budget changes and small supplemental appropriations—the benefits might be as advertised.

It is important to keep in mind, however, that budgeting for a \$4 trillion enterprise is an inherently uncertain and complex endeavor, and one that may need to be done annually. Often the states are pointed to as models of biennial budgeting, but it is important to note that states have been moving away from biennial budgeting. In 1940, 44 states had biennial budgets, while currently only 20 states enact budgets every two years. In addition, of the eight states with the largest budgets and annual legislative sessions (Texas has a biennial legislative session), only Ohio has a biennial budget.⁴ For a government as complex as the federal government, the further out that we try to budget, the more likely it is that changes will be necessary in the “non-budget” year—and not just a few, but a lot.

Moreover, particularly in the House (where appropriations committee members do not generally sit on other committees) it seems unlikely that appropriators would decide to just take every other year off, even if policy circumstances would allow them to do so. The combination of this uncertainty and political incentives call into serious question the assumption that the Congress and agencies will spend less time on budgeting in the non-budget year.

Finally, to the extent that biennial budgeting permitted more time to be spent on authorizations and oversight, the time saved for federal agencies from biennial budget submission and appropriations might be illusory. Authorization and oversight, done well, are time-consuming activities, and agency officials might find that they spend a lot of time testifying before Congressional committees, even in off-budget years.

Will biennial budgeting create more certainty for agencies? Budget predictability is, in my view, a very important issue. In fact, two years ago the Senate Homeland Security and Governmental Affairs Committee held a hearing on budget uncertainty; I testified at that hearing concerning the negative consequences of uncertainty, based on some work I had done for the IBM Center for the Business of Government.⁵ The fact that the appropriations process is chronically late substantially constrains the ability of federal agencies to plan and perform effectively. In that context, anything that would create more predictability would be a positive development.

It is important to point out, however, a couple of factors that would limit improvements in predictability. First, as noted above, the biennial process might just degenerate into an annual process with large omnibus supplementals, thus compromising improvements in budgetary certainty. Second, the increased stakes involved in budgeting for two years at a time may make

⁴ See National Association on State Budget Officers, *Budget Processes in the States* (2015), pp. 8-9; See also Richard Kogan, Robert Greenstein, and James Horney, *Biennial Budgeting: Do the Drawbacks Outweigh the Advantages?* (Center on Budget and Policy Priorities, 2012), p. 5.

⁵ See Philip G. Joyce, *The Costs of Budget Uncertainty* (IBM Center for the Business of Government, November 2012).

it even less likely that the appropriations process will be completed by the beginning of the fiscal year, even if the President and the Congress adhere to the biennial schedule.

I should note that there are ways that the Congress could increase predictability and certainty for federal agencies, even under the current annual process. The most obvious one would be to pass appropriation bills on time, and curb the now routine practice of “government by continuing resolution”. It could also go a step further and experiment with biennial budgeting for some particularly stable and predictable programs, and make some funds that currently expire after one year available for two or more years.

Will biennial budgeting increase, and improve, Congressional authorizations and oversight? The Congress, in general, could do a better job of both authorizing and oversight, and I think that improvements in both of these processes could lead to substantial increases in accountability. By “improved” authorization and oversight, I mean activities that are focused on determining how well programs and agencies are operating, rather than those designed to uncover or react to scandal.

While better authorizing and oversight are desirable, I am skeptical that biennial budgeting would make this happen. In order to believe that improvements would actually occur, we would have to believe that the primary current impediment is a lack of time. I believe, conversely, that the reason that more and better authorizing and oversight do not occur has to do with a lack of incentives to do so. Frankly, the hard work of doing detailed, performance-focused reviews of federal agencies has few obvious electoral benefits. Thus, if a member of Congress had more time available, there would be many other activities competing for that time (such as raising campaign money or providing constituent service). These other activities are likely to have much greater payoff than understanding in greater detail how federal programs and agencies work.

Further, there is substantial oversight that takes place as part of the appropriations process, especially because agencies have substantial incentives to be responsive to the Congress when funding is at stake. Ironically, this means that we may actually see a decrease in oversight under a biennial appropriations process.

Possible Negative Effects of Biennial Budgeting

The above discussion focuses primarily on whether the benefits of biennial budgeting would be as advertised. To the extent that they might not, it simply means that the positive effects may have been oversold. There are some real potential costs to biennial budgeting, however, and the Congress should consider these carefully before adopting such a reform. Among the possible negative consequences are:

- Because budget resolutions would be adopted only every other year, there would be possible compromises to the ability of the Congress to both confront fiscal imbalances, and to act as an equal player in setting fiscal policy. This would reduce the tools available to the Congress in reducing the federal debt;
- The budget would be based on outdated projections, which will either result in having to remake the budget, or will make the budget unrealistic;
- A biennial process would tend to freeze past priorities in place, making it less likely that the budget process would be responsive to the demands of the electorate and making it more likely that programs would continue that have outlived their usefulness.

Congress and Fiscal Policy. Since the passage of the 1974 Budget Act, the budget resolution has presented an opportunity for the Congress to respond with an alternate budget plan to the plan included in the President's budget. Virtually all observers and analysts have concluded that this has empowered the Congress, relative to the President, in the budget process. Indeed the reconciliation process, which is central to the Congressional budget process, has been used in the past (most notably, in the 1990s) to force the kinds of changes that have been used to reduce past deficits. A biennial process—one that said that the budget resolution, and therefore reconciliation, could only be used in odd-numbered years--would only require the Congress to confront our current fiscal imbalance every other year. I think that as long as the federal budget is on its current unsustainable trajectory, the Congress (and the President, for that matter) should be forced to confront fiscal policy every year.

It is also important to point out that as discretionary appropriations cover a smaller percentage of total spending, the budget resolution is the only place that the Congress is forced to confront the real drivers of increased debt—entitlements and tax policy, including tax expenditures. As members of this committee know as well as anyone, the debt held by the public (which was less than 40 percent of GDP as recently as 2008) now exceeds 70 percent of GDP and is projected to increase even further under current policy. It seems ill-advised to pay less attention to overall fiscal policy at the precise time when it seems most necessary to address our fiscal challenges.

There are those who would point out, correctly, that in recent years we have tended toward multi-year budget agreements. This is used as an argument that biennial budgeting, as a matter of overall fiscal policy, is really just ratification of the status quo. The 2013 and 2015 budget deals, however, were not really “budgeting” in the manner anticipated by the 1974 Budget Act, but represented marginal adjustments to existing policy in order to avoid or end government shutdowns.

Looking to the future, and the prospects for further debt reduction, I would conclude that the timing of a “big deal” is dependent primarily on whether the political factors that would provide the impetus for such an agreement are present. A process that says that the budget resolution and reconciliation can only be used in odd-numbered years assumes that it is only during odd-numbered years where the moon and the stars would align in favor of debt reduction. This is not

necessarily the case—I would argue, for example, that the most important deficit reduction deal of the last quarter century occurred in 1990, a year that would have been defined as a “non-budget” year under most biennial budgeting proposals.

Budget Projections. One thing that we know for sure about future budget projections is that they are wrong; we just do not know by how much or in which direction. Another thing that we know, however, is that the further out into the future we try to project the performance of the economy, revenues, and spending the more wrong we are likely to be. A biennial process would require agencies to present budget requests to OMB for two fiscal years, the second of which would not end until more than three years after the request is made. The budget resolution and the appropriations process would be based on more unrealistic projections as well. This makes it even more likely, as noted above, that the process would degenerate into an annual process; that is, the necessary updates to assumptions would lead to revisions both in the executive budget proposal and in legislation that would result in a biennial process only on paper.

Freezing Priorities in Place. One of the criticisms of government budgeting in general is that it tends to be incremental, and resistant to change. A biennial process could make that worse. If the benefits of biennial budgeting were to occur—that is, if we really did budget for most programs and policies only every two years—this would make the budget more calcified than it is now. There are a number of possible negative consequences of frozen budget priorities. They could make it more difficult to change priorities. New Presidents, in particular, would need to present a full two-year budget within months of taking office, but they would not have another chance at a full budget until after the Congressional mid-term elections. Further, as setting budget priorities is arguably the most important thing that is routinely done in a democracy, it somehow seems undemocratic to say that it would only be done in non-election years. At the micro-level, a biennial process might delay the process of reducing funding for or eliminating programs that were no longer functioning effectively. Either way, biennial budgeting could result in less direct accountability to the electorate.

Conclusion

The goals of biennial budgeting are laudable. In fact, I am sympathetic to all of the criticisms of the current process that lead thoughtful people to support biennial budgets. The budget process is not timely, it does not promote predictability, it is time-consuming, and not enough time is spent on oversight. I do question, however, whether biennial budgeting is the solution to these problems. I am concerned that there may be unintended negative consequences that will make it more difficult, under a biennial timetable, for the Congress and the President to deal with the large fiscal and policy problems that the country faces. If the Congress does wish to provide more predictability for federal agencies, it could do so by passing appropriation bills on time and by making more funds available for multiple rather than single years.